



**Treasury
Inspector
General for Tax
Administration**



Recovery Act

THE DIRECT PAY BUILD AMERICA BOND COMPLIANCE CHECK PROGRAM HAS YET TO RESULT IN WIDE-SCALE EXAMINATIONS

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Highlights

Highlights of Report Number: 2011-11-053 to the Internal Revenue Service Acting Commissioner for the Tax Exempt and Government Entities Division.

IMPACT ON TAXPAYERS

In February 2010, the Tax Exempt Bonds (TEB) office mailed 375 compliance check questionnaires to issuers of Build America Bonds, which resulted in concerns from the bond industry that responses could result in wide-scale examinations and potential loss of a Federal subsidy. TIGTA determined the initiation and scope of compliance checks were appropriate and, as of the end of our fieldwork, very few Build America Bond examinations had been initiated, contrary to bond industry fears. However, written procedures for developing and conducting compliance checks had not been established. Procedures would provide added assurance that the TEB office does not exceed its authority when executing future compliance check programs and could ease concerns within the bond community by improving the transparency of future compliance checks.

WHY TIGTA DID THE AUDIT

The overall objectives of this review were to evaluate the TEB office's use of compliance checks to identify indications of a high risk of noncompliance for Build America Bonds and to evaluate the TEB office's plans to address the high-risk indicators.

WHAT TIGTA FOUND

The compliance check questionnaires issued by the TEB office were appropriate for identifying indications of a high risk of potential noncompliance for Build America Bonds and did not request information specific enough to start examinations. In fact, as of the end of our fieldwork, very few Build America Bond examinations had been initiated, contrary to bond industry fears. According to TEB office management, these examinations were started based on research and

reviews of requests for subsidy payments, rather than responses to compliance check questionnaires.

While the TEB office questionnaires were appropriate for gathering information for use in developing a longer term compliance strategy, the TEB office does not have formal written procedures for developing and conducting compliance checks. Procedures would be beneficial to help TEB office employees develop future compliance check programs, provide added assurance the IRS does not exceed its authority when executing such programs, and ease concerns by improving transparency so the bond community will have a better understanding of the compliance check process.

In addition, TIGTA could not evaluate the TEB office's plans to address high-risk indicators because the TEB office has yet to complete an in-depth review of the compliance check questionnaire responses and develop a longer term compliance plan.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, TEB, Tax Exempt and Government Entities Division, document formal guidelines for planning and conducting compliance check programs.

In their response to the report, IRS management agreed with the recommendation. The TEB office plans to publish new procedures on 1) the roles and responsibilities of TEB office managers and employees assigned to the program, 2) the planning process for developing questionnaire projects, 3) documenting the approval for questionnaire projects, 4) the process for evaluating collected data, and 5) the decision points for proceeding with follow-up compliance efforts, including examinations when appropriate.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2011reports/201111053fr.pdf>.